

January, 2002

How to Bid in the EPA SO₂ Allowance Auctions
Tenth Annual Auctions
March 25, 2002

To reduce acid rain, Title IV of the Clean Air Act Amendments of 1990 (CAAA) established the Acid Rain Program, which uses an innovative, market-based allowance trading system to cut in half sulfur dioxide emissions. The CAAA mandated that EPA hold yearly auctions of a small portion of allowances (2.8 percent) reserved from the total allowances allocated to utilities each year. The auctions are intended to help signal price information to the allowance market and provide a public source of allowances for new utilities that are not allocated allowances. Utilities, environmental groups, allowance brokers, and anyone else interested in purchasing allowances can participate in the EPA auctions. Allowances sold at the auctions will be sold to the highest bidder until no allowances remain. EPA cannot set a minimum acceptable price for allowances in the auctions and bidders are not restricted as to the quantity or price of their bid.

When will the ninth EPA auctions be held and how many allowances will be sold?

On March 25, 2002, EPA will sponsor the tenth annual allowance auctions under the CAAA. 125,000 allowances will be sold in the “spot” auction (usable for compliance beginning in 2002), and 125,000 allowances will be sold in the 7-year advance auction (usable for compliance beginning in 2009).

What is the role of the Chicago Board of Trade in the EPA auctions?

EPA has delegated the administration of the auctions to the Chicago Board of Trade (CBOT). CBOT will not charge fees for their services, bid for allowances in the auctions, or transfer allowances in the EPA Allowance Tracking System. EPA is allowing, however, clearing members of the Board of Trade Clearing Corporation (BOTCC) to bid on their own behalf or their customers’ without having to submit an EPA Letter of Credit Form or certified check. Payment is being guaranteed through the BOTCC, which provides trade clearance and settlement services for CBOT. BOTCC members may charge bidders a fee for bidding on their behalf.

Can I offer some of my allowances to be sold in the EPA auctions?

Yes, for the 2002 auctions, utilities that are allocated allowances, or others that have purchased allowances held in the Allowance Tracking System, can offer their allowances for sale in the EPA auctions and set a minimum price for those allowances. However, offered allowances will be sold after the allowances from the reserve, so offered allowances will consequently be sold at a lower price than the allowances from the reserve. To offer allowances in the 2002 auctions, EPA must receive an SO₂ Allowance Offer Form by the close of business on March 4, 2002.

Do I need an account in the Allowance Tracking System before I bid in the EPA auctions?

Yes, to be able to bid in the EPA auctions, one must first have an account in the EPA Allowance Tracking System (ATS). Affected units are automatically given unit accounts in the ATS. All others wanting to bid in the EPA auctions must open a General Account in the ATS by submitting an Allowance Account Information Form. EPA encourages bidders to open a General Account prior to close of business March 19, 2002, the deadline by which bids must be received by CBOT.

How do I bid in the EPA auctions?

Anyone can bid in the EPA auctions by opening an account in the Allowance Tracking System and submitting a Bid Form. Submitted with the Bid Form must be a certified check, an EPA Letter of Credit Form, or, when bidding through a BOTCC clearing member, a BOTCC Clearing Member Reimbursement Agreement Form. EPA will only accept an EPA Letter of Credit Form that is signed by a bank that is a member of the Federal Reserve and is a participant in the FEDWIRE funds transfer system. Complete Bid Forms must be received by CBOT by the close of business (4:30 p.m. Central Standard Time) on March 19, 2002.

When will the forms needed to bid in the EPA auctions be available?

By the end of January 2002, the Allowance Account Information Form and the EPA auction forms can be obtained from the Acid Rain Hotline at (202) 564-9620 or on the Acid Rain Program Homepage: <http://www.epa.gov/airmarkets>. BOTCC Clearing Member Reimbursement Agreement Forms can be obtained from the Chicago Board of Trade at (312) 347-5528.

How will I know the results of the EPA auctions?

CBOT will issue a press release of the auction results on March 26, 2002. Also EPA will post the results on the Acid Rain Program Auctions Web site (<http://www.epa.gov/airmarkets/auctions/>).

When do I pay for allowances won at the auctions if I use a Letter of Credit Form or BOTCC Clearing Member Reimbursement Agreement Form to guarantee payment?

If a winning bidder uses an EPA Letter of Credit Form or a BOTCC Clearing Member Reimbursement Agreement Form, that bidder must wire funds to EPA's bank account or ensure that CBOT receives a certified check for the full amount owed no later than noon, March 29, 2002 EST. If payment is not received by that time, CBOT will demand payment from the bank that signed the EPA Letter of Credit Form or demand payment from the BOTCC.

Who do I contact for more Information?

To obtain additional information on the EPA auctions, call the Acid Rain Hotline at (202) 564-9620 or check the Acid Rain Program Auctions Web site (<http://www.epa.gov/airmarkets/auctions/>).

Summary of Information to Participate in the EPA Auctions

Action		Form Needed	Send To	Received by Close of Business
Offering allowances in the EPA auctions		SO ₂ Allowance Offer Form	EPA	March 4, 2002
Bidding in the EPA auctions				
C	Open ATS General Account (does not apply to affected units)	Allowance Account Information Form	EPA	March 19, 2002
C	Submit completed auction bid with method of payment	Bid Form with: (1) certified check; (2) EPA Letter of Credit Form; or (3) BOTCC Clearing Member Reimbursement Agreement Form	CBOT	March 19, 2002